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MITCHELL SHIRE COUNCIL

SUBMISSION TO THE INQUIRY INTO SUSTAINABILITY AND OPERATIONAL CHALLENGES OF VICTORIA'S RURAL AND REGIONAL COUNCILS

This submission is in response to a call for submissions regarding the *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* from the Environment, Natural Resources and Regional Development Committee (ENRRDC).

In particular, the Terms of Reference are:

> *'To inquire into, consider and report, no later than 31 March 2017, the sustainability and operational challenges of Victoria's rural and regional councils, including but not limited to the following:*

(a) *Local government funding and budgetary pressures*
(b) *Fairness, equity and adequacy of rating systems*
(c) *Impact of rate-capping policies*
(d) *Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure*
(e) *Maintenance of local road and bridge networks*
(f) *Weed and pest animal control*

This submission addresses each of these issues and provides a general comment regarding the sustainability and operational challenges of Victoria's rural and regional councils.

Profile of Mitchell Shire Council

Located 40 kilometres north of Melbourne, Mitchell Shire Council is one of Victoria's fastest growing outer metropolitan municipalities.

As an interface growth area, Mitchell offers a mix of rural and urban living with affordable housing and a diversity of lifestyle and housing choices. The southern part of the Shire lies within Melbourne's designated growth boundary, while the central and northern parts of the Shire retain a largely rural landscape, requiring us to plan for and balance the needs of very diverse populations.

Our rolling foothills, open farmland, mountain ranges, rivers and creeks are key attributes of our landscape amenity. This also means parts of our municipality are subject to natural disasters such as fires, storms and floods, and planning for and responding to emergencies is a core Council function.

At 2,864 square kilometres, we are a large municipality with four larger townships and more than 40 smaller towns and rural communities. We have a large and ageing asset base to support these communities which includes community buildings; parks and open space and a large road, drainage and bridge network. We also have a number of new facilities in the south of the Shire as we support rapid population growth.

Profile of Mitchell Shire Council (cont'd)

Our population is currently 39,143 (ABS estimates 2016). In the next 15 years our population is projected to grow by more than 50,000 people with nearly 90,000 people calling Mitchell home, many of them young families. It is anticipated that most of this growth will occur in and around the southern townships of Beveridge, Wallan and Kilmore/Kilmore East.

Mitchell has a high commuter workforce and our community relies heavily on regional rail and road networks to travel to and from work and for day to day community activities.

Key employers within the Shire include Puckapunyal Army Barracks, Council, Hospitals, Health Services, Schools and Child Care, Supermarkets, Ralphs Meats, and Nestle. Our agricultural, equine and tourism industries are also important contributors to our local economy.

Parts of our municipality experience significant socio-economic disadvantage with a SEIFA index of 6 overall and as low as 1 in Seymour and 2 in Broadford. Seymour also has the highest inequality when comparing the poorest residents with the wealthiest. This presents unique challenges for service provision and planning. Part of Council's role is to work with local service providers and other government spheres to help address this disadvantage and inequality.

(a) Local Government Funding and Budgetary Pressures

These comments relate specifically to the challenges facing Mitchell Shire Council, being an Interface Council facing rapid growth. The Council elected in 2012 inherited a number of legacy financial challenges and have been working to implement 'corrections' to ensure long term financial sustainability. One of the more significant challenges inherited was a deteriorating operating position due to the previous Council believing it was running surpluses when in fact it was running underlying deficits. As Council believed it was running surpluses it approved rate increases, which were insufficient to cover its increasing cost base.

For the last three budget cycles, the Council has consistently highlighted to the community, and in all statutory documentation, the key outcomes needed to ensure ongoing financial sustainability in the Mitchell Shire Council context. These are as relevant today as they were in 2012/13 and include the need to:

- Replenish cash holdings, and provide appropriate levels of working capital
- Lessen the long term reliance on rate increases
- Improve the operating position to fade out underlying deficits
- Increase spend on existing asset renewal and maintenance
- Provide funding for infrastructure needed to support newer communities
- Ensure there is enhanced capacity to borrow to fund crucial community infrastructure, generally associated with growth

(a) Local Government Funding and Budgetary Pressures (cont'd)

The Council recast its Strategic Resource Plan (SRP) significantly in 2014/15 and reduced operating costs by $1 million and achieved a 2015/16 budget with only 0.3% escalation in operating costs (excluding depreciation). Recognising the difficulty of achieving the right balance in a financial and resource constrained environment, the project "Your Budget, Your Priorities" was developed in 2015. The project set an ambitious target of increasing investment in capital through operational efficiencies and appropriate income generation by $4 million recurrent over the coming two financial years. $2 million of this was achieved for the 2016/17 budget whilst working within the constraints of a 2.5% rate cap. The second $2 million is expected to be achieved as part of the 2017/18 budget development process. This is required to ensure that, at an operational level, Council generates sufficient funds to maintain community assets and provide some level of funding towards new assets.

As with other growth councils, Council has a medium to high reliance on rate revenue as its main source of income to fund service and infrastructure investment. However, unlike the other growth councils, it is heavily reliant on government grants to meet the non-rate component of its service and infrastructure investment. Developer Contributions are another significant source of capital funding however these funds are specific to subdivision developments and do not cover the additional costs relating to population growth and general demand for infrastructure provision and upgrades.

It is also important to note that much of our population growth is driven by affordability in the housing market, i.e. cheaper land and housing north of the Melbourne metropolitan area. It is fair to say that the majority of these purchasers have a very constrained ability to pay increased rates yet the demand for infrastructure and services is high. As this is the case, there needs to be a circuit breaker, which means a partnership between Local, State and Federal governments is crucial to meet this need without overburdening the ratepayers of this municipality.

Council's ability to generate other sources of income generally available to city municipalities, such as parking income, is extremely limited. It is therefore heavily reliant on the government to fund major infrastructure investments in roads, bridges and major asset renewal, with the largest source of government funding to Council being the annual Financial Assistance Grant. The freeze on general indexation has only exacerbated this situation with an expected loss of revenue to Council of $2 million over the 3 year period of the freeze.

Mitchell Shire Council has also been impacted by the State Government reducing their share of expenditure relating to Maternal & Child Health services, Libraries, School Crossing Supervisors, Weed and Pest Control, State Emergency Services, Neighbourhood Houses and Pre-schools and also increased compliance costs and levies in relation to waste management.

Funding reductions reduce Council's cumulative revenue and place pressure on our capacity to deliver services to the established service standards expected by our community.

(b) Fairness, Equity and Adequacy of Rating Systems

The rating system currently operating in Victorian Municipalities has remained relatively unchanged as the basis of revenue generation in Councils. The ability to adopt differential rates provides some flexibility to apportion the rate burden in a more equitable way. Mitchell Shire Council has utilised this to reduce the burden on farming land and to encourage development of vacant residential and commercial land. The municipal charge has been utilised to spread the cost of general governance and civic administration equitably across the rate base. We have also undertaken hardship arrangements for those struggling to meet their rate payment obligations.

Given the flexibility currently provided for in the *Local Government Act 1990*, Council is of the opinion that the rating system currently in force delivers a fair and equitable outcome for ratepayers. The imposition of a rate cap has however limited a council's ability to generate adequate funds to meet the specific requirements of that council. Not all councils are in the same stage of development and those who are building their infrastructure are at a distinct disadvantage to those who simply maintain a well-established asset base. For this reason, an inability to provide infrastructure through the rate base places a strong reliance on government funding.

It is acknowledged that access to or demand for council services varies markedly between individual ratepayers depending on their life circumstances, however, viewed over the long term, most ratepayers would be the beneficiaries of council services at some point in time. Thus, viewed over a longer period, the system delivers equity. This is not dissimilar to services offered by State and Federal governments which are paid for through taxation but not utilised by many taxpayers. Council has also utilised borrowing where it is considered that the benefit of a particular community asset has a multi-generational impact and therefore for reasons of equity, should reasonably be funded through the rating system over a long term period.

(c) Impact of Rate-Capping Policies

There are a number of negative impacts and consequences of the current rate-capping regime upon rural and interface or peri-urban councils such as Mitchell Shire Council. The rate cap imposition in 2016/17 meant a reduction in Mitchell Shire Council's budget of $633,000 and resulted in many community grants and projects being cut completely, reduced or deferred. Going forward, Council will be required to continue to make these savings and perhaps even greater savings if the rate cap is further reduced. To apply a cap that fits all municipalities is a simplistic and ill-conceived response to curbing council rate increases. Considerations of a municipality's size, demographic diversity, road network, socioeconomic profile, and alternative revenue raising capacity, should be taken into consideration. The demands on peri-urban municipalities for infrastructure and services that match the established suburban municipalities also sets them apart.

A better approach would be to place councils in categories sharing similar attributes and financial challenges. An established inner city municipality does not face the same demands on revenue raising as a rural municipality does.

(c) Impact of Rate-Capping Policies (cont'd)

It is acknowledged that it is possible to apply for a rate cap exemption, however a system of allocating rate caps according to obvious needs of councils within specific categories such as rural, semi-rural, peri-urban/growth, would go a long way to reduce red tape and acknowledge the uniqueness of particular types of councils.

There is also the political challenge of applying for a rate exemption. Even if a rate cap exemption is justified, and indeed necessary to maintain financial sustainability, it may be politically unpalatable for a council to take this option. Community expectation has been formed that councils should be able to operate within the cap irrespective of the particular circumstances and demands being placed on the council. The assumption that council costs are in line with the CPI is erroneous, as is easily demonstrated by the gap between employee cost percentage increases related to Enterprise Bargaining Agreements and the rate cap percentage.

As mentioned in item (a), Mitchell Shire Council put in place decisive action well before the rate cap was imposed to reduce operational and program spending and to bolster our infrastructure spending on both existing and new facilities. We have set a bold program of reducing net operating costs at a time when demand for services and facilities is growing. There is an assertion in some circles that a growing municipality receives an automatic lift in rate income due to that growth and therefore should be able to fund the additional demand. The fact is that the cost of providing new roads, community facilities and services outpaces the growth in revenue. We are continually reviewing our programs and systems to achieve greater efficiencies and to obtain continuous improvement across all areas. Rate capping has led to further service cuts beyond the ambitious yet responsible program that Council has embarked upon.

(d) Capacity for Rural and Regional Councils to meet Responsibilities for Flood Planning and Preparation, and Maintenance of Flood Mitigation Infrastructure

The Victorian Floodplain Management Strategy prescribes a range of accountabilities to Local Government, of which most are not provided for in long term financial plans and are generally beyond the skills and resources of regional municipalities. Furthermore, there are State agencies and departments with whom these responsibilities are more logically suited. Generally speaking, local government authorities are not well placed to meet these obligations.

(e) Maintenance of Local Road and Bridge Networks

Mitchell Shire Council currently maintains a local road network of 1,356km. Of this, 641km are sealed, while 715km are unsealed. The Shire also has responsibility for 60 bridge structures and 158 fords and major culverts.

Effective maintenance and operation of this network requires significant annual investment, for which Mitchell Shire Council relies heavily on State and Federal assistance. Cessation of State and Federal funding over recent years has diminished this investment and reduced optimum investment in renewal and maintenance of the Shire's road network.

(e) Maintenance of Local Road and Bridge Networks (cont'd)

The loss of the Country Roads and Bridges Initiative has been covered in the short term by an increase to Roads to Recovery allocations but this will be short lived and once again, rural Councils like Mitchell Shire are likely to find themselves with a $1 million gap in their roads budgets which will inevitably lead to reductions in service, road safety, further degradation to road assets, and the implementation of load limits on bridges throughout the State. In recent community surveys undertaken, the Mitchell community were very clear in prioritising the maintenance of roads as a very high priority for service delivery.

Being a growth Council on Melbourne's northern fringe, where projected population growth is set to grow rapidly over the next decade, places an additional strain on available budgets to maintain the road network for growing volumes of vehicles and to provide for road infrastructure for upgrades to the growing road network where development contributions are not always available. Often routine maintenance of the existing road, bridge and drainage network and assets is overlooked for funding priority with available Council funds being used to fill in the gaps in infrastructure that are left by ad-hoc greenfield development within our growing towns.

(f) Weed and Pest Animal Control

The management of pest plants and animals presents a significant challenge for local government in the face of reduced government funding and resources and in a rate capping environment.

In 2013, the *Catchment and Land Protection Act* (CaLP)1994 was amended to clarify that municipal councils are responsible for controlling declared species on roadsides if the land is a municipal road. This is in addition to land that Council owns and/or manages. This legislative change represents a significant investment of Council's time and money, for example, Mitchell Shire Council has to maintain both sides of the road which equates to 2,712km of rural roadsides.

Although some State Government funding has been gratefully received to assist with roadside pest control, this funding only represented approximately 30% of Council's expenditure on roadside weed control in 2015/2016 and this funding is due to cease at the end of 2017/2018.

Without the government funding and in a rate capping environment, it is likely that the good work undertaken to control pest plants and animals, especially on rural roadsides, will be undermined, leading to the spread of pests on our rural roadsides and environment.

Mitchell Shire Council is also in a position where there are many new and emerging weeds such as Lobed Needle Grass and Chilean Needle Grass that require careful treatment and management. This issue is further compounded by a lack of enforcement action able to be undertaken regarding weed control on private property.

General Comment

There is a clear view that rural and regional councils face unique challenges and cannot simply be viewed as a generic local government entity. The funding opportunities and requirements of these councils needs to be considered differently than is currently the case. A rate capping environment that imposes a one-size fits all solution to a complex problem is simplistic and unsustainable. The reliance on government funding of rural based and peri-urban municipalities also needs to be addressed as an offset to rate revenue raising. State and Federal governments need to support rural councils, particularly in areas such as roads, bridges and disaster management. A continuation of the current rate capping regime will lead to further service cuts and a deterioration in infrastructure over time, as has been exemplified in councils in New South Wales. Local councils are genuinely working towards efficiencies in operations and are seeking to work together collaboratively to reduce costs and share resources. The cooperation and support of the Victorian State Government will be required to provide a standard of service delivery across the State that is expected and demanded by our ratepayers.